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### PROSPECTIVE FUTURE TRENDS IN AGRICULTURAL ADJUSTMENT

Adapted from an address by M. L. Wilson, Assistant Secretary  
of Agriculture, before the American Vocational Association  
Pittsburgh, Pa., December 6.

Most of us have vivid memories of 1932, - when 400,000,000 bushels of wheat, a full crop of cotton and two to three crops of tobacco were backed up on the farms and in the terminal markets and warehouses. We had 12-cent corn and the large supplies of hogs and cattle could be sold only at ridiculously low prices. Farm products, on the average, exchanged then for only 53 percent as much non-agricultural products as they did during the pre-war period, 1909-1914. Debts contracted when this purchasing power was above the pre-war level simply could not be paid unless radical changes occurred that would at least practically restore the pre-war level. The collapse of farm prices under the weight of huge surpluses not only bankrupted thousands of farmers and threatened to bankrupt the rest, but also helped to undermine the foundations of American business.

A description of the complex and cumulative causes of the situation in which we found ourselves in 1932 is but a description of the upheaval in world affairs produced by the World War and of post-war policies followed by this and other leading nations. The more obvious effect was the loss of our export market for agricultural products and the enormous contraction of farm purchasing power as compared with that of highly organized industrial, business and labor groups.

It was in the face of this situation that Congress, through the Agricultural Adjustment Act of May 1933 authorized the Secretary of Agriculture to set up and administer a plan of action designed to restore to farmers the pre-war purchasing power of the domestically - consumed portion of their basic crops. The plan included a democratic method of farmer-adjustment of production to effective demand. To make it possible for individual farmers to adjust their production, the plan provided for the distribution of benefit payments derived from taxes collected from processors.

#### Production Control Necessary in Price-Raising Program

Since the war, various governments have tried price-raising measures for certain agricultural commodities, unaccompanied by production control. Notorious examples are those of Brazil for coffee and of Japan for silk. The inevitable result was increased supplies to aggravate an already bad situation. Confronted with this experience, our government has wisely included production control as



an important part of its farm-income-raising plan.

When this plan was being debated in Congress, its opponents said that it was economically sound in principle but administratively unworkable, but this vast program has been carried out in a manner which is a credit to all concerned.

Four million cooperative production-control contracts have been signed by approximately 3,000,000 farmers. Five and a half million checks, for a total of a half billion dollars, have been mailed to these farmers. Marketing agreements and licenses applying to more than 60 commodities are now in effect or pending in all but three States of the Union. In 1934 between 30 and 40 million acres were retired from the production of crops of which there were surpluses. This gigantic task has been accomplished through democratic machinery. Approximately 5,000 county production control associations with about 30,000 active county committeemen and about 100,000 community committeemen made the individual farm allotments and administered the program within the counties.

To complicate the program in 1934, nature stepped in with a ruthless hand and cut production in a manner which was not anticipated, but fortunately for the farmers in the drought areas the production control plan has served as a kind of crop insurance.

So much for past performance. We have now reached the point where we should weigh and interpret the valuable experience of the past 18 months, - where we should be asking ourselves what should be the future course of agricultural adjustment.

#### Future Demand for Agricultural Products Uncertain

In determining the future agricultural policy of the Nation, we are confronted by a number of stubborn realities, most of them looking to the future but growing out of past policies. No one, no matter what his gifts of prophecy may be can state today with reasonable accuracy how much pork, wheat, cotton, tobacco, or other products we are going to export in 1935 or 1936. We are even less capable of estimating what these exports will be in the more distant future.

Economic nationalism is rampant throughout the world. Most nations, through tariffs and other trade barriers, are trying to be as self-sufficient as possible. In the midst of this international situation we find ourselves changed from a debtor to a creditor nation.

Circumstances before the World War made us a debtor nation, while developments since that time have made us a creditor nation. After our Civil War, Europeans found this country, with its great undeveloped resources, one of the safest places to invest their savings. Railroads and other major developments were financed with foreign funds. If you trace the history of our country from the Civil War to the World War, you will find that our exports of agricultural products rose continually and were almost equal, from year to year, to the interest on our debts to European investors. This provided one of the most natural trade currents the world has ever seen.

But at the end of the World War, instead of our owing Europe \$100,000,000 in interest at the end of each year, Europe was obligated through war loans to



pay us annually \$500,000,000 in interest, - which she could pay only by sending us either gold or goods. We closed our gates to her goods and continued to loan her gold with which to pay the interest due us. It was inevitable that this arrangement should collapse. We are now getting neither gold nor goods. International trade is demoralized.

I do not know how this deadlock will be broken but I am certain that the kind of economic policies which worked well before the World War will work badly under current economic nationalism. Fundamentally, there are three directions open to us with respect to exports. We may seek a maximum of international trade, we may renounce international trade, and we may follow a middle course between the two.

We are now following the middle course. We hope that we can regain our foreign markets. We hope that, should we regain them, we shall be able to find new places in industry for those who would be displaced by the importation of goods from Europe in exchange for the surplus product of our farms. Such a program would result in a rising standard of living throughout the world and would provide an improved international situation conducive to still greater international trade as time goes on.

If, on the other hand, we are going to face a stone wall of continuously growing nationalism, we are not going to be able to increase our exports and we are going to face eventually the task of taking out of production, for the duration of the nationalistic disease at least, the land now devoted to the production of crops for export. It is estimated that we may have to retire as much as 40 to 50 million acres of our better farm land in order to effect this adjustment. That would be a painful process.

The situation requiring a choice between internationalism, nationalism, and a middle course is little understood in our national life today. I estimate, and I believe conservatively, that 90 percent of the criticism of the adjustment efforts has come from those who do not understand at all the facts of this situation.

#### Thorough Understanding of Conditions Needed

If we are going to prepare ourselves for the present tendency toward economic nationalism, and if we are going to meet the situation by democratic processes, it will be necessary for farmers, as well as the public generally, to have a thorough understanding of the conditions. An economic democracy among farmers has to be built upon a common understanding by farmers of the problems with which they are attempting to deal.

Besides the question of our foreign markets we shall have to consider the relationship of agriculture to other economic interests of our own Nation from the broad viewpoint of national economy. Farm prices and the prices of most things farmers buy are determined in such entirely different ways that to ignore these differences is to invite disturbances in the national economy.

Farm prices have been left largely to the free competition of the open market. It has been assumed that the law of supply and demand would work out fairly and satisfactorily in the case of farm products. Many years ago, when



our economic system was much more simple than it is today, both agricultural and industrial price fluctuations were largely in response to the forces of an open and free market, but the modern industrial organization has changed all this. In one industry after another free competitive price making has been practically eliminated, and for a large number of industrial products it is no longer true that prices are determined by the free and unhampered operation of the law of supply and demand.

It is now widely recognized that agriculture, operated on an individual family basis, does not respond to lower prices or slackened demand as does industry - by curtailing production. The farmer is his own employer, for the most part, and he can do little to reduce his costs by discharging his labor price. Moreover, his fixed charges are heavy, and his inclination is to continue producing despite low prices. Industry, on the other hand, cuts its pay rolls; and this performance is just as important a factor in economic changes affecting agriculture as in the loss of foreign markets.

Between 1929 and 1933 average prices of agricultural products fell 63 percent, while production was reduced only 6 percent. By the way of contrast, prices of agricultural machinery fell 6 percent, while production was reduced 60 percent. Prices of motor vehicles fell 16 percent, while production was reduced 80 percent. In the case of cement, prices were reduced 18 percent and production 65 percent. Prices of iron and steel fell only 20 percent but production was curtailed 83 percent.

#### Agriculture and Industry Must Operate on Same Basis

You will notice that farm prices were as putty in response to market forces, but the prices of non-agricultural products showed great resistance. This is due to the fact that for more than a century business groups through collective action have been gradually substituting what they regard as fair competition for the classical ideal of free competition, while agriculture has continued substantially on a free competitive basis. Business has not abolished the law of supply and demand; it has adapted it to its own purposes. Will business return to free, or "kill 'em and eat 'em," competition, or will it insist upon its fair, or "live and let live," competition? There are absolutely no indications of any tendency for business to return to free competition. Evidence multiplies, on the other hand, to support the view that its collective power will be strengthened even if it should become more amenable to the influence of government.

For my part, I can see no reason why business should give up its collective controls; but if it does not and should not do so, there is no alternative for agriculture except to master this technique for its own protection, unless it wants to lapse into a sort of exploited peasant economy. In the interest of the national economy, either both groups should act collectively or neither should do so.

According to classical doctrine, the law of supply and demand, if allowed to operate under a regime of free competition, would in the long run so proportion the man power of the nation among the various lines of productive activity that the nation as a whole would attain the highest possible standard of living consistent with the existing knowledge of technology. There are at least two things wrong with this doctrine. In the long run we are all dead, and in the meantime a significant part of our producers refuses to practice free competition.



If somehow we could get the wheat producers, who are growing wheat that nobody wants, to build houses, make bathtubs and a thousand other things that people do want, the standard of living of the community as a whole would be higher. According to the classical doctrine, low prices of wheat and high prices of bathtubs are the forces that could be relied upon to bring about the adjustment. But as a matter of cold fact, wheat growers don't move readily, manufacturers don't compete freely, and during the interval required for the theoretical adjustment (even if it should occur eventually) human lives and hopes worth saving would be blasted.

Proponents of the agricultural adjustment movement are sometimes vigorously criticised on the ground that they are preventing the production of wealth. The answer to this argument is simply that agriculture can and will produce all the food and fibre that can be consumed by those in a position to offer a reasonable amount of non-agricultural goods in return, but that it is not the duty of the farmer, any more than it is the duty of other groups, to work for nothing. Under the law of supply and demand a large crop may be worth less in the aggregate than a smaller crop. In such an event the producer suffers unreasonably because a portion of his production is not wanted at a reasonable price.

There are those who think we can return to a simple competitive society where the function of the government would be largely that of an educator and policeman. Industry and labor would be forced to give up their habits of collective action. To those who hold this view I can only say that history will give them no comfort. Those in charge of the agricultural adjustment program are making a realistic approach to the problem. Under this program the government has responsibilities to the consumer and to other elements of society besides agriculture. It serves as a mediator in the interest of harmony among the various highly organized groups of the nation. The program is regarded as the normal development in a democracy. The alternatives are fascism or communism, and these latter systems will develop when we lose faith in the democratic principle.

For my part, I should fight the establishment of a dictatorial system with all my energy. Such a system would mean, in the case of agriculture, the establishment of a farm dictator. The cooperative principle would be surrendered and the use of referenda would be scorned.

#### Changes Likely In Agricultural Adjustment

As to the future of agricultural adjustment in the United States, I believe that farmers will not want to give it up, and I believe that it is likely to develop, through maturing processes, methods which will give even more vigorous expression to the democratic principle. A number of changes I think are likely to take place.

In the first place, I believe that adjustment will become more flexible, looking towards the time when the machinery may be employed for increased as well as decreased production, for making more certain of the balance on which greater security for agriculture will naturally rest.

Second, the adjustment machinery is likely to be refined to remove the individual inequalities and injustices which were inevitable because of the speed with which it was put in operation to meet a grave emergency.



Third, the Adjustment program will develop greater consistency with the way in which nature laid out the different farming areas of the United States. For instance, a farmer in Illinois recently suggested to me that it would be desirable, and in accord with facts discovered through experience and scientific investigation to encourage farmers to limit their plantings of corn to no more than 60 percent of the acreage of a farm, in order to make possible employment of crop rotation and to keep the soil at its best producing level. He believed that crop rotation and the planting of legumes would be stimulated in this way. Other farming areas where certain crops have dominance might, through a decision of the farmers in the cropping area, employ some similar principle. Certainly it might be employed to prevent a repetition of the soil damaging practices which ruined many of the cotton and tobacco growing sections of the South many years ago.

Fourth, I believe the Adjustment program will develop a great deal of flexibility from year to year to make it more fully responsive to the new factors brought forward by nature from year to year. The drought is a good instance of a force which makes it necessary for us to have flexibility in order to change the direction of production in some commodities.

Fifth, there is a likelihood of the development of a process in association with Agricultural Adjustment of tending to stimulate the shifting of production from the poorer and more inefficient lands to the better lands, both on individual farms and by regions.

Sixth, the Adjustment program is likely to develop more fully the possibilities of marketing agreements. We need to be open-minded on the subject of marketing agreements. They have been limited so far largely to commodities produced in limited areas. They present a new field. Perhaps they can be more widely applied in the future.

Seventh, there is the possibility of enlargement of the crop insurance features of the Act with a view to making more certain of at least a minimum amount of purchasing power for farmers. The development of this part of the program will have to be handled carefully and should be localized as far as possible.

Eighth, I believe that there will be more experiments looking towards the development of new industrial crops to be raised on contracted acres or as substitutes for contracted acres. The Department of Agriculture is making every effort to increase the industrial uses of farm products. There are undoubtedly many fields here which remain to be explored.

Ninth, there is a strong possibility that through experience there will be developed greater decentralization of administration of the Adjustment program. Perhaps there are things now being done in Washington that could best be done by the county control associations.

Secretary Wallace, and all of us who have some part in this program, believe in the possibilities of economic democracy as manifested by the referendum and other principles which tend to make the whole Adjustment program more and more "the farmer's show." But we know that democracy cannot work unless it is based on intelligence and knowledge on the part of the great majority of individuals who are a part of it, of the reasons for every important step that is taken. If we are to have a good deal of control on the basis of the use of referenda, it means that the farmers taking part in the referendum must know and understand the facts related to the decision they are to make.



### Expansion in Farm Storage and Loan Program Possible

There is another important possibility which is likely to grow with the future of Agricultural Adjustment and which the Adjustment program is making possible. That is the increased use of the principle of storage of surplus farm products on the farms of the producers. It will be possible to employ the principle of loans so successfully used last year for the storage of corn. It will be possible to use these loan programs only if they are tied to the Adjustment program so as to make sure that production can be adjusted from time to time if supplies stored on the farms warrant curtailment. We do not want any more backing up on the farms and in the terminal markets of surpluses such as lay in the wake of the Farm Board program. This storage principle has in it the possibilities of the development of what Secretary Wallace calls the "ever-normal granary."

There is one point in connection with the future of the Adjustment program which I would like to give separate emphasis. That is the conviction that the county control associations must confine their functions solely to administration of the Adjustment programs in their counties. Their functions may be enlarged, but they must resist the temptation of moving into the field of politics, or of marketing, or into the fields where the regular farm organizations and the cooperative groups are now serving definite purposes.

### Long-Time Adjustment Involves Better Land Utilization

There is also a long-time phase of Agricultural Adjustment about which we need to be thinking at this time. A part of this long-time adjustment will involve application of the principles of a better land utilization and the retirement of sub-marginal lands from commercial farm production. It is likely that, as part of this program, opportunities will be given to farm families now living on sub-marginal lands to move to better lands where they will have a fair chance to attain a better standard of living. A fund of \$25,000,000 has been set aside for the purchase of sub-marginal lands and the Adjustment Administration is cooperating in this project with a view to learning more about the possibilities of aiding in and encouraging the movement towards the better use of land.

Until recently the surplus population on our farms could find a place on the new land in the West. But the good lands of the West are now very nearly exhausted. We have always had a flow of people from the land to the cities in the United States. Close students estimate that of the six million farmers that we have today, approximately two million of them are not actually needed in agriculture. Most of the production is centered in the hands of four million farm families, and if there is any expansion in agricultural production it is likely that these will take up the slack, for they possess the best lands and are the best equipped. Upwards of two million of the farm families do not have the resources of land or the opportunity to produce and sell products so as to achieve a good standard of living.

### DEVELOPMENT OF RURAL INDUSTRIAL COMMUNITIES HOLDS POSSIBILITIES

It would be desirable if better opportunities could be provided for those people so as to make it possible for them to have a cash income and to improve their living standards. The desirability of this has a chance of realization



because we have a movement under way in this country, the importance of which is not fully realized. It is the tendency of industry to seek more decentralized location. Many industries are definitely bound for location in the country. These industries will require workers.

There is a strong possibility that this will make possible the development of a new kind of community, a rural industrial community, through which will be developed a new pattern of life for many of these people. A pattern of life which is not entirely rural, nor entirely urban.

They will have opportunities to live on small tracts of land and to gain many of the advantages of a rural life and avoid the many disadvantages which go with congestion in the cities. They will be able to have gardens, some fruit trees, possibly poultry and a cow, and a better place to raise families.

At the same time it is improbable that these people will attempt agricultural production on a commercial family basis. It is unlikely that they could hope to compete with established commercial agricultural production with the small plants and limited time they will have to devote to their land.

Commercial family agriculture has, I believe, nothing to fear from this development, which offers so many possibilities for the improvement of the standards of family life for people who work in industry. Possibly there will be a movement of some folks from the cities to this type of community.

Because the old frontiers are gone where surplus farm population found an opportunity to apply itself, this new pattern of life may be the new frontier of the future towards which excess populations on the farm may move without losing so many of the fundamental values of rural life which we too often fail to appreciate, until we have long been separated from the land.

The philosophy of the New Deal for agriculture is based on the necessity for the closest possible recognition of forces which have a profound bearing on agriculture and an appreciation of the need for action in adjusting ourselves to these changes--plus the will to act.

Thus far, operations under the Adjustment Act have brought about a material increase in the economic welfare of farmers and a marked stimulation in the ability of farmers to purchase industrial products. The flow of income to agricultural areas resulting from these operations has been a stabilizing influence on business generally since passage of the Act. It has been very helpful during the summer of 1934 when, without the support of farm buying, the slackening industrial activity might otherwise have resulted in a far worse fall in retail sales and general business activity than actually occurred. We have now come to a point in the adjustment program where the greater part of the excessive surpluses has been eliminated. The drought resulted in a reduction in available supplies of many commodities far in excess of that which anyone could have anticipated a year ago.

#### PRODUCTION EXPANSION POSSIBLE NEXT YEAR

The present problem of agricultural adjustment is to find the most effective means of seeing that the production of each major product is in



reasonably close adjustment to the current ability of consumers in the United States and of our foreign customers who still remain to buy that production. To maintain adjustment so that supply is quite well balanced with demand makes possible an expansion in some production next year. Perhaps yields during the next cropping season will be high and the current ability of consumers here and abroad to buy those products will not increase materially. That might necessitate a further downward adjustment in 1936.

On the other hand, there is hope that the ability of consumers to buy farm products will be increased. It is in that direction that we must look. If demand can be pushed upward and farmers and city dwellers alike can enjoy a continuous rise in living standards, it will be easy enough for farmers to adjust their production continually to a rising level of demand for their products.

We will face an acute danger at any time that we move in the direction of making it impossible for farmers to have machinery with which to keep in continuous adjustment with national and world economic factors, for this is a dynamic world and today's picture may be entirely changed a year from now, or even within a shorter time. Certainly we cannot afford to abandon the farms of America to the forces of drift.

We have substantial evidence that the farmers of America have an intelligent realization of the problems that they face. They have demonstrated their capacity to cooperate in meeting these problems squarely in the democratic tradition.



